

# DenizBank Economic Update

December 2016

- **Economy**
- **Financial Markets**
- **Banking Sector**

## Economic Research and Strategy

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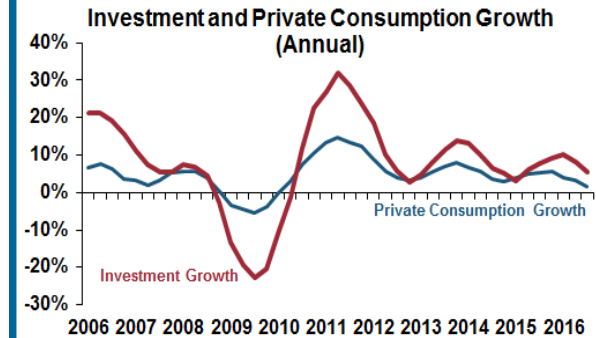
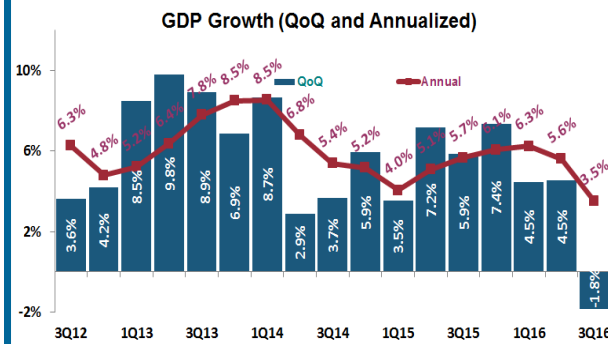
**DenizBank** 

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# DenizBank Economic Update

## Economy (I)

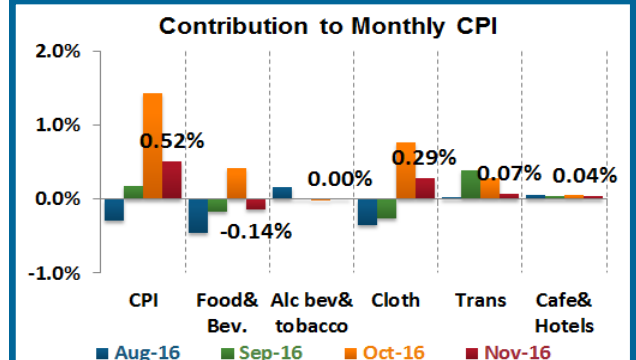
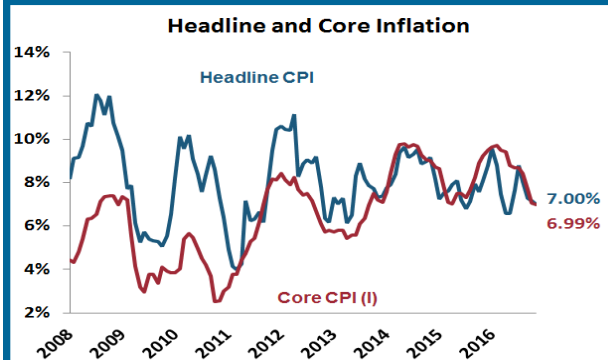
### Growth



### GDP in Turkey contracted in 3Q16 for the first time after 27 quarters ...

- GDP contracted YoY by 1.8% (Reuters Survey: -0.5%) in 3Q16 but previous data revised up substantially due to the update in methodology. The Turkish Statistical Institute switched to the ESA-2010 standards and changed the base year to 2009 from 1998.
- Along with integration of new data sources and changes to methodology, nominal GDP was 20% larger than previously estimated in 2015 (old: \$720 bn vs new: \$861 bn). Average growth rate between 2012 – 2015 was revised up to 6.1% from 3.3% while real GDP growth in the first half of 2016 also improved.
- Despite the upward revisions in historical data, 3Q16 growth was negative as private consumption, capital formation and net exports all contributed negatively to headline figure. Only public expenditures expanded (by 23.8% vs Q315). Seasonally and calendar adjusted GDP growth was negative (QoQ -2.6%), as well. Following the weak figures in 3Q16 and a limited recovery in 4Q16 according to early indicators of economic activity, 2016 full year growth could stay below 2.5%.

### Inflation



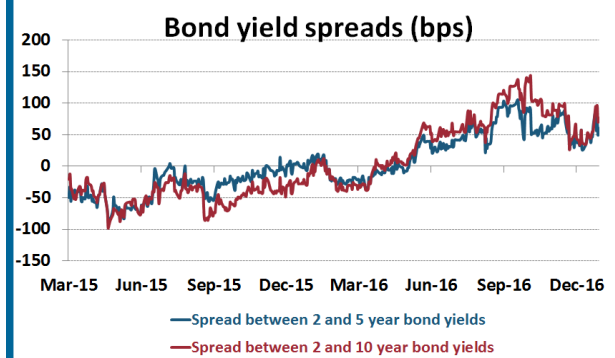
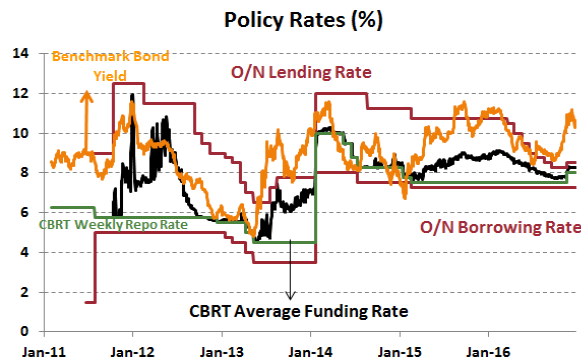
### Annual food inflation at the lowest level in November since 2003...

- CPI in November increased MoM by 0.52%, below the market expectation of 0.89%. Food prices decreased by 0.58% bringing annual food inflation down to 3.6% from 5.2% a month ago.
- Annual inflation went down to 7.0% from 7.2% a month ago, falling inside Central Bank's target range (3.0%—7.0%). Improvement in core inflation continued, as it dropped to 6.99% from 7.04% a month ago. Producer's price index (PPI) increased sharply by 2.0% on a monthly basis and annual PPI rose sharply to 6.41% from 2.84%.
- Annual inflation has been on a downward trend since July. Falling food prices, the slowdown in economic activity and low demand has been the main driver of this move. For the year end though, upwards pressure may overtake, arising from tax hikes in alcoholic beverages, tobacco and gas prices. The sharp increase in PPI signals inflationary pressures is likely strengthen on the back of FX pass through in the coming term.

# DenizBank Economic Update

## Economy (II)

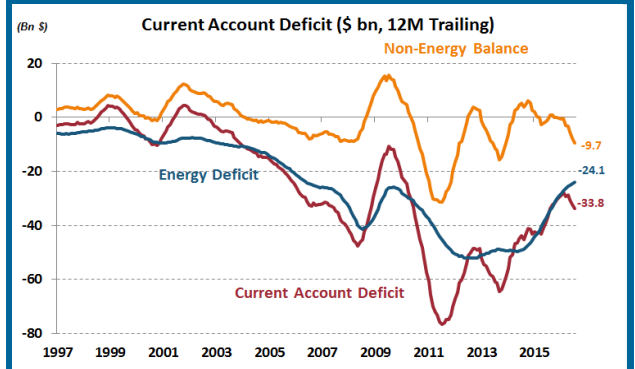
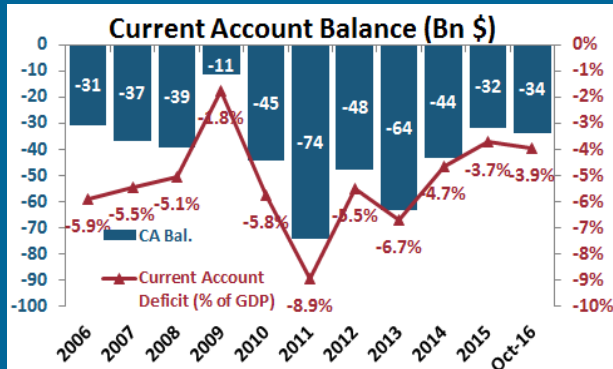
### Monetary Policy



### Central Bank (CBT) kept all rates constant...

- In its monthly Monetary Policy Meeting, CBT left the policy rate (one week repo rate) of 8.0%, O/N lending and borrowing rates of 8.5% and 7.25% respectively unchanged. Market expectation was a 25 bps hike in O/N lending rate.
- The bank kept rates unchanged this month as part of a wait-and-see strategy. Risks on inflation outlook exist in both ways. The slowdown in economy and fall in demand create a downward pressure, whereas lagged affect of currency depreciation may create an upward pressure in coming months.
- Despite remaining on hold, the bank continued to exercise a tight monetary policy as weighted average funding rate went up to 8.3% as of early December. The low volatility in Turkish Lira throughout the month have allowed a slowdown in the rate of tightening. However, this may be only temporary as inflation expectations continues to deteriorate. 12 month forward inflation expectations went up to 8.04% from 7.87% and 24 month forward expectations went up to 7.31% from 7.27% according to CBT December expectations survey.

### External Sector



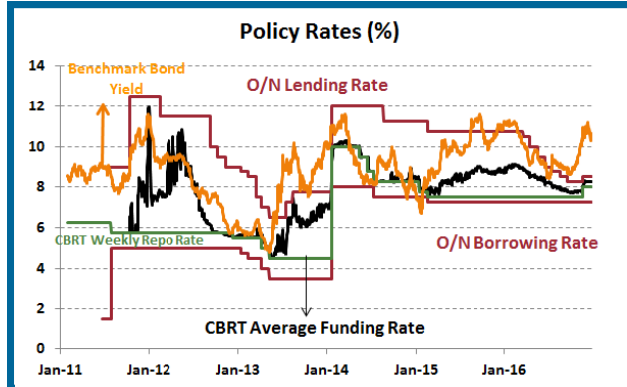
### Current account deficit widens along with growing trade deficit..

- Current account deficit (CAD) in October came at \$1.68bn. 12 month cumulative CAD widened to \$33.8 bn (3.9% of GDP) from \$32.4bn in September. On the other hand, the revision in GDP figures led to an improvement in CA / GDP ratios.
- On the financing side, there has been an FDI inflow of \$0.7bn in October. There has been an inflow of \$2bn in portfolio flows. Reserve assets increased in September by \$2.9bn.
- 12 month cumulative energy deficit in October shrank by 33% on an annual basis to \$24.1 bn. 12 month cumulative tourism revenues dropped by 35% to \$14.1 bn.
- Both banks and corporates had no difficulty in borrowing from abroad. The long term debt rollover ratio was 119% for banks and 164% for corporates.

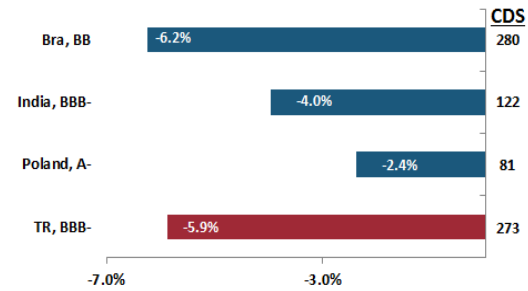
# DenizBank Economic Update

## Financial Markets

### Debt Market

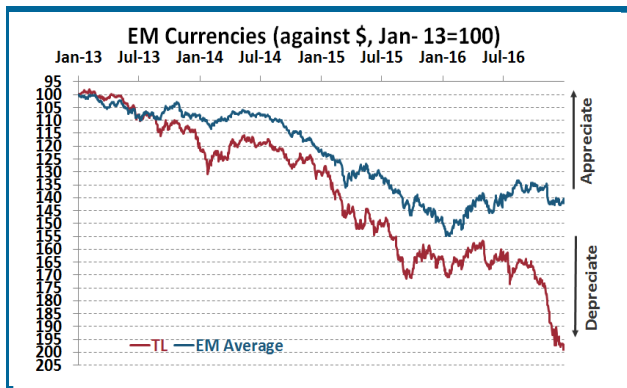


**EM CDS Spreads Monthly Change (% , 5 Year)**

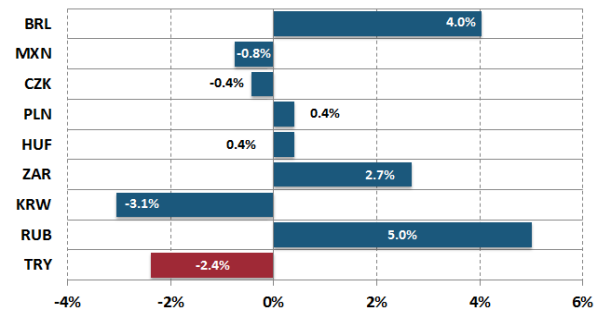


2-year benchmark bond yield is at 10.63%.

### Currency Market

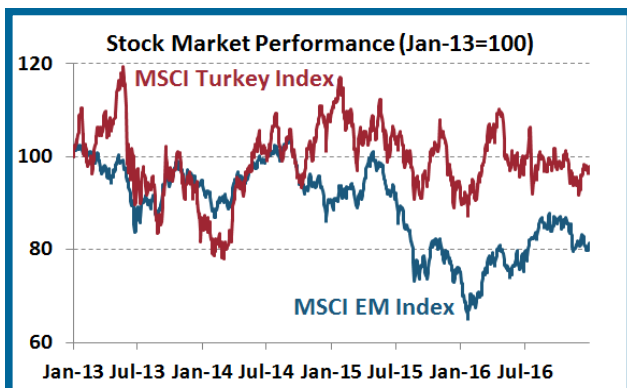


**Monthly Change Against \$**  
(Positive Values= appreciating against \$)

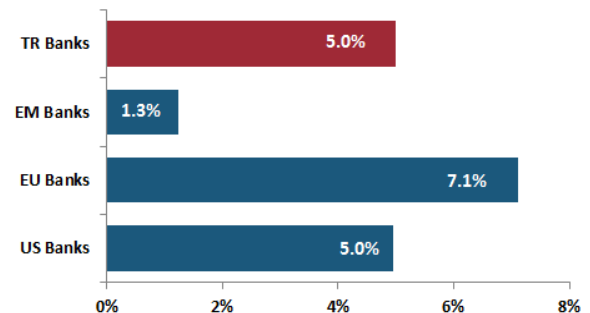


EM currencies appreciated slightly against USD on average. Turkish Lira differentiated negatively.

### Stock Market



**Monthly Performance of Banking Shares (%)**

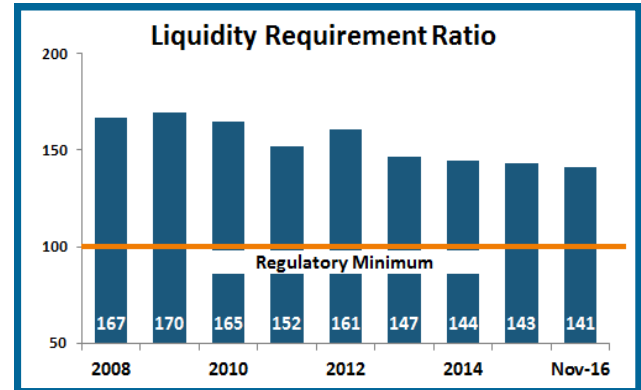
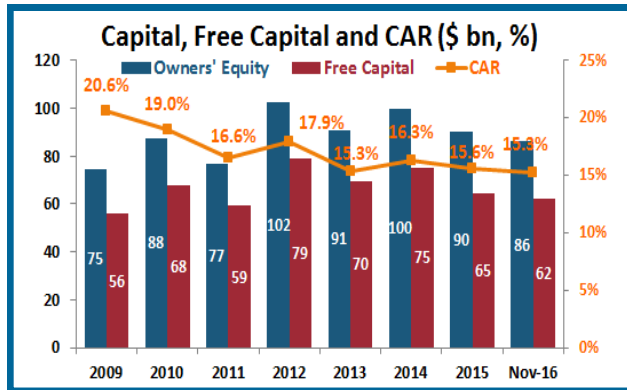


EM stock markets were flat in December. MSCI Turkey index was up by 5%.

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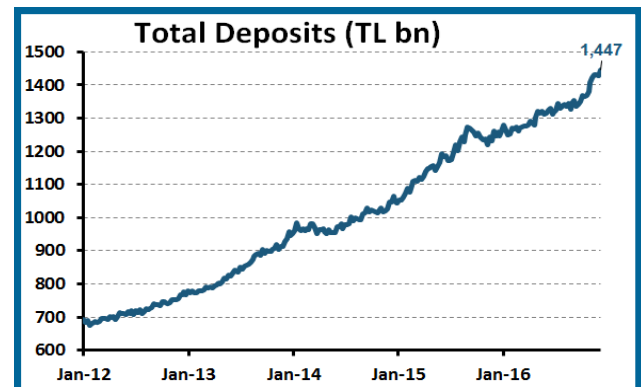
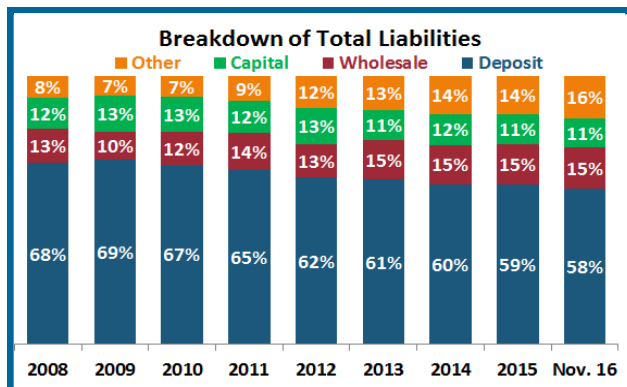
## Banking Sector (I)

### Capital



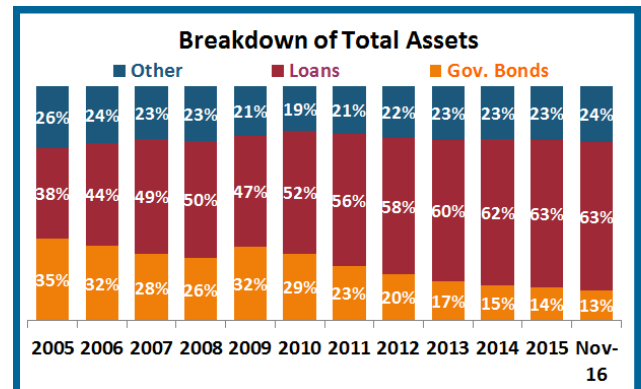
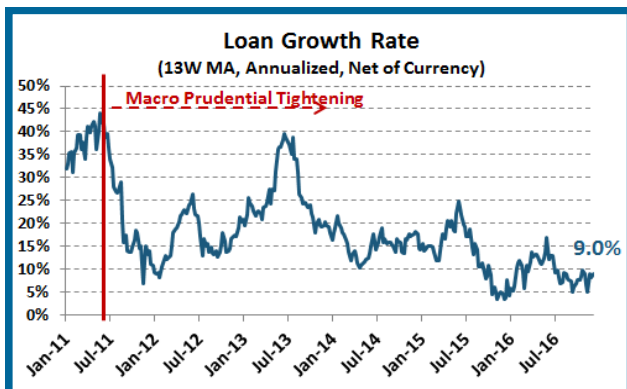
CAR is at 15.3% in November, compared to 15.6% at the end of 2015.

### Funding



Share of deposits in funding was at 58% as of Nov 16.

### Lending



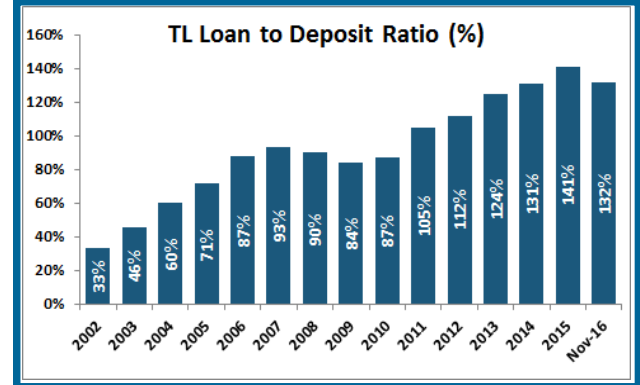
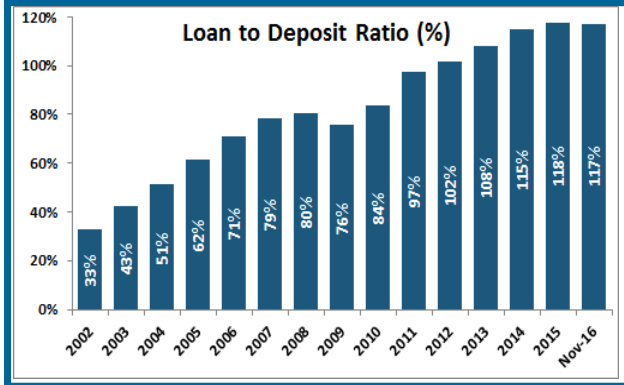
Annualized loan growth is at 9% as of December 16th.



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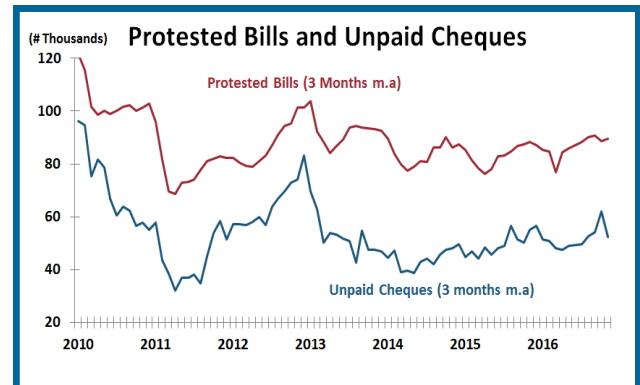
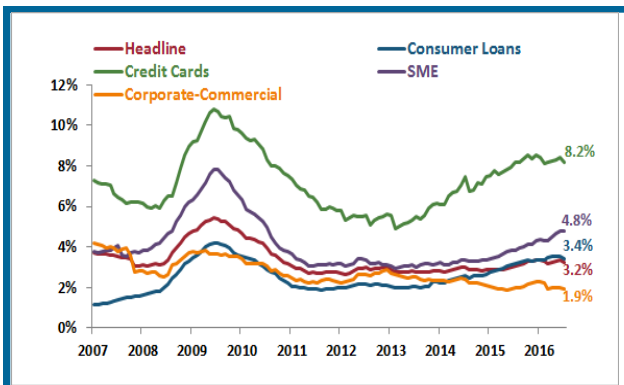
## Banking Sector (II)

### Loan to Deposit Ratios



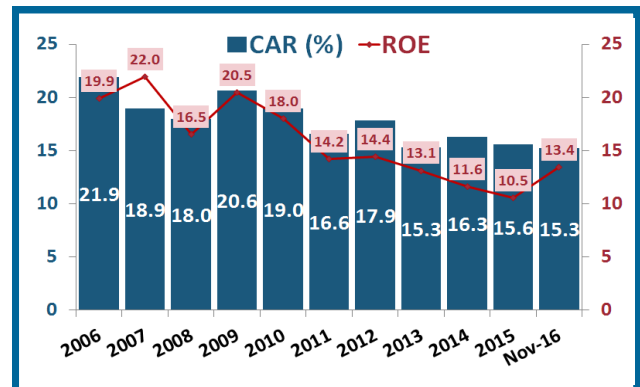
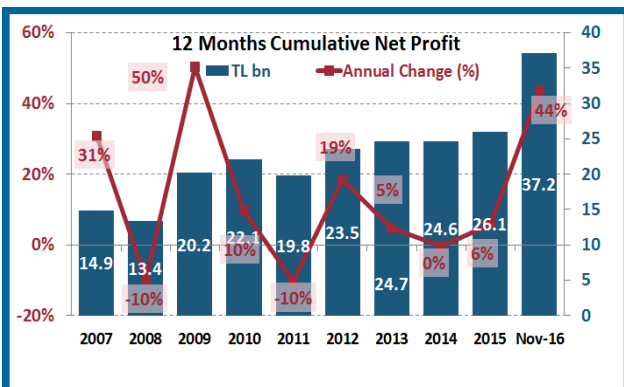
Loan to deposit ratio is 117% in November.

### Loan Quality



Headline NPL ratio for the sector is at 3.2% as of Nov—16.

### P & L



As of Nov-16, sector's 12 month cumulative profit increased YoY by 44%. ROE is at 13.4%.